

Message Text

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PAGE 01 DUBLIN 00694 040805Z
ACTION EUR-12

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SUBJECT: PROPOSALS FOR IRISH ZINC SMELTER

1. SUMMARY: IN RECENT WEEKS CONSIDERABLE ATTENTION HAS BEEN FOCUSED ON DEVELOPMENTS RELATING TO PROSPECTS FOR THE LOCAL ESTABLISHMENT OF A ZINC SMELTER TO PROCESS ORE FROM THE RICH NAVAN DEPOSITS. OF PARTICULAR SIGNIFICANCE WAS THE MID-JANUARY SUBMISSION OF THE MAIN BODY OF A FEASIBILITY STUDY TO THE GOI BY NEW JERSEY ZINC (NJZ) AND A SURPRISE COUNTER OFFER BY SOVIET OFFICIALS. LOW INTERNATIONAL PRICES, WIDESPREAD UNDER-CAPACITY PRODUCTION AND THE UNLIKELIHOOD OF A RAPID ECONOMIC UPSWING WHICH WOULD ALLEVIATE THESE PROBLEMS HAVE LED NJZ TO THE CONCLUSION THAT THE PROJECT, ALTHOUGH SOUND, SHOULD BE POSTPONED. THE SOVIET OFFER TO BUILD A COMBINED LEAD/ZINC SMELTER IS UNDETAILED AND GOI OFFICIALS DO NOT SEEM TO GIVE IT MUCH CREDENCE. NONETHELESS, POSSIBLE DISSATISFACTION WITH THE NJZ CONCLUSION (WHICH HAS NOT YET BEEN OFFICIALLY CONVEYED TO THE GOI) COULD CONCEIVABLY RESULT IN SERIOUS IRISH-SOVIET DISCUSSIONS. END SUMMARY.

2. THE MAXIMIZATION OF LOCAL VALUE ADDED HAS LONG BEEN THE AIM OF IRISH GOVERNMENTS. THE PREVIOUS (COALITION) GOVERNMENT

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PAGE 02 DUBLIN 00694 040805Z

INITIATED AN EXAMINATION OF PROSPECTS FOR AN IRISH ZINC SMELTER TO PROCESS ORE FROM THE RICH NAVAN MINES (TARA, CURRENTLY IN OPERATION, AND THE AS YET UNDEVELOPED BULA). IN EARLY 1977 THE GOVERNMENT SELECTED FOR A CONTRACT AMONG VARIOUS INTERESTED COMPANIES NEW JERSEY ZINC, A SUBSIDIARY OF GULF AND WESTERN. WE UNDERSTAND THAT THE CONTRACT CALLED FOR THE SUBMISSION OF A FEASIBILITY STUDY BY NJZ AND PROVIDED CERTAIN ASSURANCES FROM THE

GOVERNMENT THAT NJZ WOULD CARRY OUT THE PROJECT IF THEIR STUDY PROVED POSITIVE.

3. THE PROPOSED SMELTER WOULD HAVE AN INITIAL CAPACITY OF 100,000 METRIC TONS, WITH AN OPTION TO NJZ TO ENLARGE TO 200,000 IF MARKET CONDITIONS WARRANTED. THE ORIGINAL EQUITY ARRANGEMENT WOULD GIVE NJZ 55 PERCENT, WITH AN OPTION TO INCREASE TO 65. CURRENT MINISTER OF INDUSTRY, COMMERCE AND ENERGY DESMOND O'MALLEY (THE GOVERNMENT CHANGED WITH THE MID-1977) ELECTIONS) HAS PUBLICLY INDICATED A PREFERENCE FOR A MAJORITY SHAREHOLDING BY THE GOVERNMENT. THE COMPANY REGARDS THIS AS NEGOTIABLE PROVIDED THEY MAINTAIN OPERATIONAL CONTROL AND AGREEMENT CAN BE REACHED ON THEIR RATE OF RETURN.

4. AN INCOMPLETE FEASIBILITY STUDY WAS SUBMITTED TO THE INDUSTRIAL DEVELOPMENT AUTHORITY IN JANUARY. AMONG ITS RECOMMENDATIONS WERE THE USE OF THE ELECTROLYTIC PROCESS AND THE IDENTIFICATION OF CORK OR THE SHANNON ESTUARY AS THE BEST SITES. THE CRITICAL PORTION NOT YET SUBMITTED, HOWEVER, IS THE OVERALL CONCLUSION. PREVAILING LOW INTERNATIONAL PRICE LEVELS, WIDE-SPREAD UNDER CAPACITY PRODUCTION, AND THE UNLIKELIHOOD OF A RAPID ECONOMIC UPSWING WHICH WOULD ALLEVIATE THE SITUATION ARE SERIOUS MEDIUM-RANGE IMPEDIMENTS. THUS, THE NJZ CONCLUSION, WHEN FINISHED, WILL PROBABLY RECOMMEND A POSTPONEMENT OF THE PROJECT, WITH A SLIPPING OF THE TARGET DATE FOR COMPLETION FROM 1981-2 TO 1984-5. (THE INFORMATION IN PARAS 3 AND 4 PERTAINING TO EQUITY AND LIMITED OFFICIAL USE

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PAGE 03 DUBLIN 00694 040805Z

RECOMMENDATIONS OF NJZ HAVE BEEN PROVIDED TO THE EMBASSY ON A CONFIDENTIAL BASIS).

5. TO ADD SPICE TO THE SAGA, THE SOVIET EMBASSY HAS SUBMITTED A WRITTEN BUT VAGUE PROPOSITION TO BUILD A ZINC/LEAD SMELTER. REPAYMENT WOULD REPORTEDLY BE IN METAL, WITH THE PRICE LINKED TO THE WORLD MARKET. THE OFFER CAME OUT OF THE BLUE, AND SENIOR IRISH OFFICIALS ARE UNCERTAIN AS TO ITS SERIOUSNESS. CONSIDERABLE LOCAL ATTENTION HAS FOCUSED RECENTLY ON THE PERENNIAL LARGE TRADE DEFICIT THE IRISH EXPERIENCE WITH THE USSR AND COMECON NATIONS GENERALLY, AND ONE THEORY IS THAT THE OFFER IS NOTHING MORE THAN A DIVERSIONARY MANOEUVRE. A SENIOR PUBLIC SERVANT INVOLVED IN THE CASE HAS COMMENTED TO US PRIVATELY THAT THE SOVIETS HAVE PROVEN VERY DIFFICULT IN TRADE NEGOTIATIONS, AND THAT THE COMPLEXITIES OF THE SMELTER PROJECT WOULD MAKE IT ALMOST IMPOSSIBLE TO HAMMER OUT A SATISFACTORY ARRANGEMENT. MOREOVER, HE BELIEVED THAT THE GOVERNMENT WOULD BE RELUCTANT ON POLITICAL GROUNDS TO PURSUE THE OFFER. ON THE OTHER HAND, THE GOI WILL NOT FIND THE PROSPECT OF POSTPONEMENT COMPATIBLE WITH ITS NUMBER ONE OBJECTIVE -- THE RAPID CREATION OF AS MANY NEW JOBS AS POSSIBLE -- AND MAY FEEL OBLIGED TO TAKE A SERIOUS LOOK AT WHATEVER THE SOVIETS HAVE IN MIND.

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